



April 5, 2004

MICHAEL F. HANNLEY
PRESIDENT

VIA FACSIMILE 202-452-3819

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 200551

Re: Docket No. R-1181
Proposed Revisions to the Community Reinvestment Act Regulations

To Whom It May Concern:

As President & CEO of a \$156 million bank, I am asking for your **support** in endorsing the federal bank regulatory agencies' (Agencies) proposal to enlarge the number of banks and savings associations that will be examined under the small institution Community Reinvestment Act (CRA) examination. The Agencies propose to increase the asset threshold from \$250 million to \$500 million **and** to eliminate any consideration of whether the small institution is owned by a holding company. This **will** significantly help us expand CRA activities in the Tucson community and be **more** aggressive in our lending in the low-to-moderate income programs.

This proposal is clearly a major step towards an appropriate implementation of the Community Reinvestment Act and should greatly reduce regulatory burden **on** those institutions newly made eligible for the small institutions examination, **and** I strongly support both of them.

When the CRA regulations were rewritten in 1995, the banking industry recommended that community banks of at least \$500 million be eligible for a **less burdensome small** institution examination. The most significant improvement **in** the new regulations **Was** **the** addition of that small institution CRA examination, which actually did **what** the Act required; had examiners, during their examination of the bank, look at the bank's loans and assess whether the bank was helping to meet the credit **needs** of the bank's entire community. It imposed **no** investment requirements on small banks, since the Act **is** about credit, not investment. it added no data reporting requirements **on small** banks, fulfilling the promise of the Act's sponsor, Senator Proxmire, that there would be no additional **paperwork** or recordkeeping burden **on** banks if the Act passed. **And** it created a **simple**, understandable assessment test of the bank's record of providing credit in its community. The test considers the institution's loan-to-deposit **ratio**, the percentage of loans in its assessment area; its record of lending to borrowers of different income levels and businesses and farms of different sizes; the geographic distribution of its loans; and its record of taking action, **if** warranted, in response to **written** complaints about **its** performance in helping to meet credit needs in its assessment area.

Since then, the regulatory burden on small banks has only grown larger, including massive new reporting requirements under HMDA, the **USA** Patriot Act and the privacy provisions of the Gramm-Leach-Bliley Act. But the nature of community banks has not changed. When a community bank must comply with the requirements of the large institution CRA examination, the cost to and burdens on that community bank increase dramatically. In looking at my bank, converting to the large institution examination requires, among other things, that we devote additional staff time to documenting services and investments, which we currently **do** not do, and begin to geocode all of our loans that might have **CRA** value. This imposes a dramatically higher regulatory burden that drains both money and personnel away from helping to meet the credit needs of the institution's community. I have estimated the **cost** relating to the requirement in the \$50,000 range.

I believe that is as true today as it was in **1995** and in **1977** when Congress enacted CRA, that a community bank meets the credit needs of its Community if it makes a certain amount of loans relative to deposits taken. A community bank is typically **non**-complex; it takes deposits and makes loans. Its business activities are usually focused on small, defined geographic areas where the bank **is** known in the community. The small institution examination accurately captures the information necessary for examiners to assess whether a community bank is helping to meet the credit needs of its community, and nothing more **is** required to satisfy the Act.

As the Agencies state in their proposal, raising the small institution CRA examination threshold to \$500 million makes numerically more community banks eligible. However, in reality raising the asset threshold to \$500 million and eliminating the holding company limitation would retain the percentage of industry assets subject to the large retail institution test. It would decline only slightly from a little more than 90% to a little less than 90%. That decline, though slight, would more closely align the current distribution of assets between small and large banks with the distribution that **was** anticipated when the Agencies adopted the definition of "small institution". Thus, the Agencies, in revising the **CRA** regulation, are really just preserving the *status quo* of the regulation, which has been altered by a drastic decline in the number of banks, inflation and an enormous increase in the size of large banks. I believe that the Agencies need to provide greater relief to community banks than just **preserve** the *status quo* of this regulation.

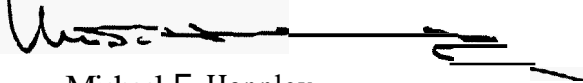
While the small institution test **was** the most significant improvement of the revised **CRA**, it was wrong to limit its application to only banks below \$250 million in assets, depriving many community banks from any regulatory relief. Currently, a bank with more than \$250 million in assets faces significantly more requirements that substantially increase regulatory burdens without consistently producing additional benefits as contemplated by the Community Reinvestment Act. In today's banking market, even a \$500 million bank often has only a handful of branches. I recommend raising the asset threshold for the small institutions examination to at least \$1 billion. Raising the limit to \$1 billion is appropriate for **two** reasons. First, keeping the focus of small institutions on lending, which the small institution examination does, would be entirely consistent with the purpose of the Community Reinvestment Act, which **is** to ensure that the Agencies evaluate how banks help to meet the credit needs of the communities they serve.

Second, raising the limit to \$1 billion will have only a small effect on the amount of total industry assets covered under the more comprehensive large bank test. According to

the Agencies' own findings, raising the limit from \$250 to \$500 million would reduce total industry assets covered by the large bank test by **less** than one percent. According to December 31, 2003, Call Report data, raising the limit to \$1 billion will reduce the amount of assets subject to the much more burdensome large institution test by only **4%** (to about **85%**). Yet, the additional relief provided would, again, be substantial, reducing the compliance burden on more than 500 additional banks and savings associations (compared to a \$500 million limit). Accordingly, I urge the Agencies to raise the limit to at least **\$1 billion**, providing significant regulatory relief while, to quote the Agencies in the proposal, not diminishing "in any way the obligation of all insured depository institutions subject to CRA to help meet the credit needs of their communities. Instead, the changes are meant only to address the regulatory burden associated with evaluating institutions under **CRA.**"

In conclusion, I strongly support increasing the asset **size** of banks eligible for the small bank streamlined CRA examination process as a vitally important step in revising and improving the **CRA** regulations and in reducing regulatory burden. I **also** support eliminating the separate holding company qualification for the small institution examination, since it places small community banks that are part of a larger holding company at a disadvantage to their peers and **has** no legal basis in the Act. While community banks, of course, **still will be** examined under **CRA** for their record of helping to meet the credit needs of their communities, this change will eliminate some of the most problematic and burdensome elements of the current CRA regulation from community banks that are drowning in regulatory red tape, both in the private sector and government, costing **us** all significant monies that could be better used to stimulate the economy.

Sincerely,



Michael F. Hannley
President & CEO